

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 2389 - SB 2357

April 14, 2009

SUMMARY OF BILL: Increases, from two to five and one-half percent, the amount of tax that all health maintenance organizations (HMOs) must pay on the gross amount of all dollars collected from an enrollee or on an enrollee's behalf.

ESTIMATED FISCAL IMPACT:

Increase State Revenue - \$136,606,900

Increase State Expenditures - \$31,004,700

Increase Federal Expenditures - \$88,880,600

Funding for this bill in the amount of \$41,662,500 in state funds and \$78,222,800 in federal funds is included in the Governor's proposed FY09-10 budget.

Revenue recognition of \$139,300,000 is included in the Governor's proposed FY09-10 budget.

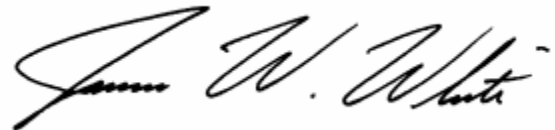
Assumptions:

- The Department of Commerce and Insurance is responsible for collecting the current two percent tax imposed on HMOs.
- According to the Department, \$11,124,134.15 was collected in calendar year 2007 and \$7,986,223.68 was collected in calendar year 2008 from commercial HMOs. This estimate is based on an average of the collections from these two calendar years, or \$9,555,179.
- According to the Department, \$67,539,803 was collected from TennCare HMOs in FY07-08. The Bureau of TennCare has \$68,505,900 in both state and federal funds in the current FY08-09 budget to pay the two percent tax. This estimate is based on the current FY08-09 TennCare budget.
- The estimated current revenue collection for the two percent HMO tax is \$78,061,079 (\$9,555,179 + \$68,505,900).

- The estimated proposed revenue collection for a five and one-half percent HMO tax is \$214,667,967 [(\$78,061,079/.02) x .055].
- The estimated net increase in revenue is \$136,606,888 (\$214,667,967 - \$78,061,079).
- The Bureau of TennCare covers the tax paid by its contracted HMOs. The estimated proposed tax increase to five and one-half percent for TennCare HMOs is \$188,391,225 [(\$68,505,900/.02) x .055].
- The estimated increase in expenditures for TennCare to cover the increase in the HMO tax is \$119,885,325 (\$188,391,225 - \$68,505,900).
- Of the \$119,885,325 increase in TennCare expenditures, \$31,004,743 will be state funds at a rate of 25.862 percent and \$88,880,582 will be federal funds at a 74.138 percent match rate.
- According to the Department of Revenue, Tenn. Code Ann. § 67-4-2008 exempts insurance companies from Franchise and Excise taxes. Currently, there are no HMO entities active as Franchise and Excise taxpayers.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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